Tri-Cities, Washington Innovation Zone Report

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TRI-CITY DEVELOPMENT COUNCIL

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In This Report . . .

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Executive Summary

The Tri-City Development Council and their local economic development partners are pleased to provide the following recommendations to the State of Washington in connection with the development of the proposed state Innovation Zone Program.

Recommendation #1. The state should consider the use of one or more contiguous federal Census Tracts or a postal ZIP Code to define innovation zone boundaries.

Recommendation #2. The state should also consider the concept of an innovation zone as an "intellectual innovation zone," rather than as just a "place-based zone." In this case, and if individual companies are going to be eligible for zone incentives, companies should be considered as being a part of the zone if they're located within some reasonable time-based proximity to the zone (*perhaps 30 minutes traveling time*).

Recommendation #3. Innovation zones are not just employment centers. They should offer special types of environments that encourage social and professional contact outside of the workplace.

Recommendation #4. Innovation is synonymous with research and development and state Innovation Zones should be created around companies involved in research and development.

Recommendation #5. Local worker training programs and other workforce development aids need to be tailored to the needs of the innovation zone and, to the degree possible, assistance needs to be provided for those facing employment barriers and for youth, incumbent workers or low income adults.

Recommendation #6. Innovation zones should be located at or near research or educational institutions so that they can serve as a magnet for technology companies and talent..

Recommendation #7. The state should consider a requirement that innovation zones contain an adequate supply of available land to accommodate (*perhaps 20 years of*) future growth.

Recommendation #8. The state should consider providing additional funds, either directly to the zone, or through the local Associate Development Organization, to assist in marketing and promoting the zones in order to stimulate future growth.

Recommendation #9. The state should require that innovation zones have or develop a strategic plan, approved by local public or private sector leadership. The plan should address organizational management, marketing of the zone, cooperative relationships between zone partners and entities located within the zone, workforce development strategies, community outreach, business assistance and opportunities for future growth and expansion of the zone.

Recommendation #10. The state should consider targeting investments both to the zone and to businesses located within the zone.

Recommendation #11. Of the infrastructure investment options available, the state should increase CERB funding for the Innovation Zone program without reducing CERB funding for other communities.

Recommendation #12. The state should consider providing other financial assistance that supports the operations and management of the zones, such as marketing, small business, and community outreach assistance that assists the zone to fulfill its role as an important economic development asset in the community.

Recommendation #13. The state should earmark Workforce Training Funds to support the Innovation Zone program. Such funding should be for a 3 to 5 year cycle to allow for both short-term and longer-term training.

Recommendation #14. The state should consider a range of B&O tax credits and other investments targeted to zone companies, and attempt as much as possible to limit the tax burden on startup and emerging companies.

The Tri-Cities area already is a center of innovation. While innovative, technology-driven companies exist throughout the community, the heart of such efforts are located in north Richland, anchored by Pacific Northwest National Laboratory (PNNL), Washington State University Tri-Cities (WSU-TC), Stevens Center Business Park and the Port of Benton. A recent study conducted for the community by AngelouEconomics recommended the creation of a special "Research District" surrounding these assets, and the development within that district of a 50 to 130-acre Tri-Cities Research Park. It also recommended that significant funding be provided

The Tri-Cities area already is a center of innovation. The proposed state program could assist this effort greatly by adding state resources and credibility to the existing partnerships and development efforts already underway.

"Innovation Zones are an economic strategy linking next generation skills, research institutions, globally competitive companies and state infrastructure investments."

State Discussion Paper

by the local economic development partners to be used for marketing and recruitment efforts designed to attract additional research and high tech manufacturing firms to the park.

The park concept would be similar to other well-known private and university-owned research parks around the nation. The park would provide land and other services that, because of its close proximity to PNNL and WSU-TC, would attract new and expanding technology-oriented research, testing, and manufacturing companies to locate at the park in an environment that would stimulate social and professional interaction in a high quality of life environment.

The state's proposed Innovation Zone program would be a welcome and helpful adjunct to the Tri-Cities as it moves forward to implement the recommendations of the AngelouEconomics study.

Background

In May 2006, the Washington State Department of Community, Trade and Economic Development (CTED) sent a discussion paper and guidelines requesting proposals from Associate Development Organizations (ADOs) and Workforce Development Councils (WDCs) regarding a proposed new state Innovation Zone program. The paper announced that the state would be making a limited number of demonstration planning grants available to WDCs and ADOs as a means of obtaining their assistance in better defining the proposed program prior to the Governor's 2006 Priorities of Government budget process and more comprehensive proposals for the 2007 session of the Washington Legislature. Ultimately, six proposals were selected to receive Innovation Zone planning grants. The Tri-City Development Council (TRIDEC) was one of those selected. This report is the result of that study effort.

This report is the result of an on-going effort by local economic development organizations led by TRIDEC. In addition to TRIDEC, the local team members included PNNL, WSU-TC, Columbia Basin College (CBC), the local staff of the Washington State Employment Security Department and the local Workforce Development Council and ESD's local labor market analyst, Dean Schau, Benton County, the Cities of Kennewick, Pasco, Richland and West Richland, the Ports of Benton, Kennewick and Pasco, the Prosser Economic Development Association and many other individuals who gave generously of their time and talent. A list of the Tri-City team members and others who provided valuable assistance to this effort is provided as Appendix 1.

TRIDEC's administrative expenses associated with developing this report, along with the accumulated time and resources of their economic development partners, represent the local match associated with this grant. In addition, the Tri-Cities community has invested more than $375,000 in local economic development plans and strategies consistent with the innovation zone program since 2005 (see Vision, page 13).

The recommendations contained in this report provide our views on how this unique and important new program might best be structured to assist other communities throughout Washington State. In addition, it describes a Tri-Cities Innovation Zone that might serve as the "poster child" for innovation zones in the state.

We based our report on the results of community surveys that were developed from the state's discussion paper and guidelines; from personal one-on-one interviews with local economic development partners, research and educational institutions and other important community stakeholders; and a community focus group that discussed incentives, workforce issues and the need for investment capital. A draft of the report was then circulated and reviewed by TRIDEC and others before being submitted to the state.

Innovation Zone Characteristics

The governor's Competitiveness Council and the governor's policy staff have created a thoughtful vision of the state Innovation Zone concept that was provided in the discussion paper. TRIDEC strongly embraces this vision and strongly supports the concept of a state Innovation Zone program. Indeed, we have been living and working in midst of many of the characteristics that define an innovation zone for many years.

Unlike state and federal enterprise zones that target incentives and attempt to drive development to areas of distress (often unsuccessfully, because the incentives are not significant enough to overcome the area's inherent and often growing problems), innovation zones are places that build on success and on a combination of factors that create a synergy that attracts world class technicians, researchers and scientists and the companies they work for in a creative environment that generates economic growth, new jobs and new tax base.

It is unlikely that each community seeking an innovation zone will be able to exhibit all of the following characteristics. However, most of the following characteristics will need to be present or able to be developed if a proposed zone is to meet the goals envisioned in the state's program.

Recommendation #1
The state should consider the use of one or more contiguous federal Census Tracts or a postal ZIP Code to define innovation zone boundaries.

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The state also should consider the concept of an innovation zone as an "intellectual innovation zone," rather than as just a "place-based zone."

Characteristics that are missing or underdeveloped should represent targets for future state and local planning and development efforts.

A Sense of Place. Innovation zones, particularly if the state provides targeted investments to the zones or to the companies located within them, need to be able to be defined in specific geographic terms. Because of the likelihood of limited state funding, the areas selected as innovation zones need to be small enough to be able to focus state and local investments. The boundaries also need to have consistent characteristics that allow for the collection of common demographic and labor market data. Therefore, we recommend that the state should consider the use of one or more contiguous federal Census Tracts or a postal ZIP Code to define innovation zone boundaries.

Unfortunately, Census Tracts and ZIP Codes generate different types of data. The Census Tracts generate a wide range of excellent socio-economic data that, even with updated estimates, is often badly outdated. On the other hand, ZIP Code data can be aggregated to provide employment and labor market information, generally at the county level, with a relatively short lag time. Census Tracts are generally smaller than ZIP Codes, so that it is likely that an innovation zone defined by one or more Census Tract will fall within the boundaries of one ZIP Code.

A narrow geographic definition of a zone raises another set of issues. How can the innovation zone program be used to assist other innovative companies that are not located within the zone? How can the zone program assist other local areas in which some zone characteristics exist, but not enough of them to justify designation as a zone?

Some innovative technology companies may have supplier or other relationships with a zone but may not be physically located in the zone. Or, because of financial or location-based reasons such as the need for rail, air or freeway access, or simple convenience or even personal preference, cannot be located in the zone. If the state limits zone benefits to infrastructure and the development of the zone itself, these companies would be excluded from the zone program. However, if the state decides to provide zone benefits to individual companies, it would be harder to exclude these companies. In that case, the state might want to think of an innovation zone less of a place-based innovation zone, and more as an "intellectual innovation zone" and consider allowing companies to be included in the zone if they're located within some reasonable time-based proximity to the zone (perhaps 30 minutes traveling time) to allow for convenience of personal collaboration.

There may also be groups of such companies located in other parts of the community that exhibit some, but not all, of the characteristics of a zone. In this case, the state might want to consider the creation of a second tier of potential zones that have a realistic potential for becoming innovation zones in the future if assistance is provided to help them develop their missing or underdeveloped characteristics.

A Sense of Community. Innovation zones are not just employment centers, they should be, in a broader sense, community centers. Perhaps the best examples of this in Washington are South Lake Union in Seattle and the Redmond area anchored by Microsoft.

Such areas offer more than employment. They offer special types of environments that encourage social and professional contact outside of the workplace. Ideally, they provide a variety of commercial activity, such as hotels, restaurants and professional services, arts and entertainment, parks and recreation opportunities, and a range of housing options that include single family, apartments and condominiums. Such communities should offer affordable and efficient public transportation and serve as centers for residents who do not necessarily live in the innovation zone.

Arguably, such amenities can be expected to grow in a free-market environment, however, it may be useful, even necessary, to facilitate the process through targeted infrastructure investments, creative land use and zoning regulations, and public transportation decisions. Such investments spur economic activity in the zone and generate new tax revenues for local governments.

Additionally, innovation zones can be a vehicle for creating and providing various types of outreach activities that not only assist companies and residents located within the zone, but those located throughout the broader community as well. The state might consider funding these outreach activities through a coordinated program administered by the Washington Technology Center or some other appropriate state agency.

Examples of such activities might include:

- The creation of an "entrepreneurial collaborative" that combines information about local small business assistance providers in one place, such as an online, one-stop Web Portal. This would assist both zone and non-zone companies by directing requests for business assistance from the Portal to the proper local community service provider. Service providers belonging

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to the collaborative would be expected to hold frequent meetings to discuss coordination and gaps or improvement in delivery of services. The Portal should also be able to identify specialized types of technical assistance available in the community, such as patent attorneys or proposal writers;

- Annual surveys of businesses located within the innovation zone in order to determine how small business service providers are serving their needs;

- Work with local educators to determine the potential for creating integrated and progressive career paths from high school through university aimed at eventual employment by the students in existing or new companies attracted to the zone;

- Creation and expansion of programs that create a synergy between K-12 schools, local community colleges and local universities designed to help meet the workforce requirements of companies located in or near the innovation zone;

- Forming a "mentor's collaborative" where retired or successful tech company executives could mentor newer CEO's and perhaps serve on their boards of directors, or a "peer collaborative" where company CEOs from within the zone can meet periodically to discuss issue of mutual interest, and;

- Providing other targeted community outreach programs, such as creating a speaker's bureau, working with science and technology clubs in local schools, or student mentoring and shadowing programs.

Of particular importance is the potential for identifying and training talented local students for careers with technology companies. Working with local K-12 school systems, nearby community colleges and universities, it should be possible to create innovative programs that help meet the workforce requirements of companies located in or near the innovation zone. For example, the state already has "Centers of Excellence" programs in selected community colleges. The state should look at expanding the program to include new Centers of Excellence tied to the core capacities of each innovation zone.

Concentrations of World Class Companies. The dictionary defines innovation as "a creation (of a new device or process) that results from study and experimentation." Under that definition, innovation is synonymous with research and development and state Innovation Zones should be created around companies involved in research and development.

Technology companies also are defined as belonging to certain industrial sectors, identified by Standard Industrial Classification (SIC) or North American Industry Classification System (NAICS) codes, in which at least seven (7) percent of the workers are engaged in technology occupations such as engineers, scientists, computer programmers, technicians and statisticians. This definition excludes otherwise technology-based companies that are strictly in manufacturing or sales, without an R&D component. For example, a business in the audio/visual equipment design and manufacturing sector would be considered as a technology company, whereas a company in the electronics sales sector would not.

Other commonly-used indicators of technology companies are:

- Research and development expenditure per worker (*In the case of PNNL, $720,000,000 divided by 4,200 workers, or $171,000 per worker/year*),
- Patents granted per worker, or
- Percent of budget spent on R&D (*This information should be available in the financial statements of public companies; private companies may have to be surveyed.*)

It also is possible to look at similar indicators for the geographic area in which an innovation zone is located, such as:

- Percentage of graduate degrees in the area, or
- Percentage of scientists and engineers (per 1,000 population).

The state's discussion paper referred to "globally competitive companies." Generally, these companies have two common characteristics – their markets are outside their local economic region and they are big enough to provide sustained growth. These companies also tend to source their ideas – technologies, products and business practices – from the best of class all over the world. Companies that have obtained international certifications, such as ISO 9000 (Quality Control) or ISO 14000 (Environmental Consciousness) may not necessarily be innovative companies, but their efforts to obtain their certifications suggest that they are globally competitive companies.

<u>Concentrations of World Class Workers</u>. World class companies demand world class workers. They often have great difficulty in finding them. The presence of a major university or research institution in a community can go a long way toward producing and attracting skilled technology workers. Equally important, universities are a source of business managers

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and entrepreneurs who are needed to transform intellectual property into commercially profitable businesses. Absent that, they must be imported.

Importing quality managers and workers is often dependent on much more than salary, benefits and the challenge of the job. Increasingly, it is dependent on quality of life issues, including social and cultural amenities and finding quality employment for a spouse or partner. This is another reason why a "sense of community" should be included among the criteria for selection as an innovation zone.

Many workers employed by world class research and development companies are characterized by high educational or technical skills, patents generated, or the number of scientists and engineers per 1,000. Obviously, however, not all world class workers have high educational or technical skills. Scientific support staff, clerical and administrative workers, and maintenance employees are equally important. These workers are generally the product of the local K-12 and community college systems. Local school districts and community colleges need to be equal partners in the innovation zone program, along with research and educational institutions and local governments, in helping to create a quality workforce.

Science and technology clubs and mentoring programs in local high schools should be supported by zone companies, creating both an interest and a path forward to future employment. Curriculae and degree programs between community colleges and local universities need to be much more seamless, facilitating the ability of a student to transfer from one to the other. Zone companies can provide employees as guest lecturers, adjunct teachers and one-on-one mentors in local high schools, community colleges and universities as a means of creating both an interest in innovation and technology as well as future workers for the innovation zone. Obviously, local worker training programs and other workforce development aids need to be tailored to the needs of the innovation zone and, to the degree possible, assistance needs to be provided for those facing employment barriers and for youth, incumbent workers or low income adults.

Earmarking Workforce Investment Act funding to support the state Innovation Zone program would be particularly important. This funding should be for a three to five year period so that the local workforce training providers could offer both short-term and long-term training. In the past, the challenge to providing longer-term training has been that most of the training dollars received has been tied to a one-year funding cycle.

We also believe that the greatest need for new training dollars tied to a local innovation zone would be for training incumbent workers. There is never enough incumbent worker training dollars to meet the demand because

most training dollars, understandably, are targeted to the unemployed and low-income workers. If there were more incumbent worker training dollars, we believe that they would not only do a better job of supporting local businesses and economic development efforts, but would also provide opportunities for entry level positions that would open up as incumbent workers are promoted.

Perhaps the state might want to look into using the Innovation Zone program to answer some basic research needs posed by a panel of (very) young students as reported in a recent publication of the U. S. Department of Commerce, "Visions 2020.2: Student Views on Transforming Education and Training Through Advanced Technologies".

The student's answers to the questions posed were instructive and, perhaps a vision of the future. Looking across the four themes commonly touched on by students' answers -- digital devices, access to computers and the Internet, intelligent tutor/helper, and, ways to learn and complete school work using technology – the following profile emerged of how these students want to use technology for learning:

"Every student would use a small, handheld wireless computer that is voice activated. The computer would offer high-speed access to a kid-friendly Internet, populated with websites that are safe, designed specifically for use by students, with no pop-up ads. Using this device, students would complete most of their in-school work and homework, as well as take online classes both at school and at home. Students would use the small computer to play mathematics-learning games and read interactive e-textbooks. In completing their schoolwork, students would work closely and routinely with an intelligent digital tutor, and tap a knowledge utility to obtain factual answers to questions they pose. In their history studies, students could participate in 3-D virtual reality-based historic re-enactments."

These young student's aspirations represent the types of challenges the innovation zone program is designed to achieve.

<u>Proximity to Research and Educational Institutions</u>. It is well-known that world class companies and world class workers tend to concentrate around major research and educational institutions. Notable examples include Silicon Valley in California, the Research Triangle in North Carolina, and Route 128 outside Boston. These institutions attract the companies and the workers, not the other way around. Innovation zones should be located at or near research or educational institutions so that they can serve as a magnet for technology companies and for research and development.

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Innovation zones should be located at or near research or educational institutions so that they can serve as a magnet for technology companies and talent.

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At a minimum, these institutions provide opportunities for professional collaboration, advanced education, research libraries, and networking. But beyond that, they provide opportunities for collaboration and coordination between institutions and between research institutions and educational institutions. These collaborations provide the opportunity and the impetus for research and development of the next generation of technological innovation.

An example of the latter is the new $24 million Bioproducts, Sciences and Engineering Laboratory (BSEL) at WSU-TC. The building, and the bio-sciences program itself, are the result of a cooperative effort between WSU-TC and PNNL. The building, funded by WSU-TC and PNNL, provide space for PNNL's bioproducts research and space for science labs and a new viticulture and enology program that was recently started at WSU-TC. Other local examples of such collaboration include an agreement concluded earlier this year allowing a seamless transition by CBC students to attend WSU-TC, and the 2004 agreement between Kadlec Medical Center and CBC that resulted in a new $12 million Health Sciences Building in downtown Richland for nursing education.

Room to Grow. In planning its Innovation Zone program, the state should consider a potential zone's capacity for future growth. One of the major justifications for the state expenditures that will be necessary to create a successful zone program is that, by combining world class companies and workers, research and educational institutions, and targeted public sector investments, value is added to what already exists. This results in more companies, more research, more patents, more economic diversification and new jobs and tax base for the community and the state.

It is hard to see how this can happen without the physical capacity to accommodate new and expanding companies.

Therefore, the state should consider a requirement that innovation zones contain an adequate supply of available land to accommodate future growth. This may be difficult, if not impossible, in fully developed urban areas, but in other communities innovation zones should already include, or be in a position to develop, research or business parks with enough capacity to accommodate at least 20 years of growth.

Unless this land is made available by a research or educational institution, a private developer, or a public sector development organization such as a port district, it may be necessary to create a local public-private partnership to identify and develop land for long-term development. Indeed, the local innovation zone itself may choose to incorporate and create a public-private partnership to manage and market the zone.

The ability of some zones to grow may also require a substantial marketing and promotional effort to attract new companies and development. In most cases, local Economic Development Councils or other local economic development organizations have limited funds for marketing and recruitment. However, the creation of innovation zones in these communities will impose a new and potentially significant financial burden on the EDCs which they may not be able to adequately meet. Therefore, the state should consider providing additional funds, either directly to the zone, or through the local state Associate Development Organization, to assist in marketing Innovation Zones.

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A Vision AND a Plan. There is an old adage to the point that "if you don't know where you're going, any road will take you there." That is seldom truer than in the field of economic development. While it may achieve other useful goals, the state's Innovation Zone program is, essentially, an economic development program – it builds on existing strengths, it adds value and promotes future growth, and it creates new jobs and tax base.

Community proponents of innovation zones will each have a vision of how their own zone can benefit their community. If there is a formal (or even advisory) organizational entity, that entity may already have or, if not, should develop a formal vision statement that captures the goals and aspirations of the zone. However, that vision may well go unfulfilled without a specific plan or strategy for implementing it.

The state should require that innovation zones have or develop a strategic plan, approved by local public or private sector leadership, that addresses organizational management, marketing of the zone, cooperative relationships between zone partners and entities located within the zone, workforce development strategies, community outreach, business assistance and opportunities for future growth and expansion within the zone.

Recommendation #9
The state should require that innovation zones have or develop a strategic plan, approved by local public or private sector leadership of the zone.

The innovation zone should be recognized in the local unit of government's Comprehensive Land Use Plan and strategic economic development plan, if one exists. It may be desirable for units of government to consider creation of a zoning overlay for an innovation zone area. As an example, the city of Richland created a special research zone in 2004. Zone proponents may want to undertake a consultant study in order to address particular issues related to the zone.

Targeted Investments. The state's discussion paper describes 'Innovation Zones' (as an) "economic strategy linking next-generation skills, research institutions, globally competitive companies and state infrastructure investments." This suggests that the state understands that its support for

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the innovation zone concept carries with it an obligation to be a full partner with local communities, companies, workers and research and educational institutions in helping make the proposed zones effective drivers of economic growth and diversification in Washington State.

The state should target its investments to both the zone and to businesses located within the zone. At the Tri-Cities planning meeting with Marc Baldwin, a number of potential types of infrastructure investments were discussed, including:

- Use of CERB funds for infrastructure,
- Use of the Life Sciences Discovery Fund,
- Expansion of eligibility in the use of .08 optional sales & use tax,
- Use of TIF/LIFT in potential commercial components located within innovation zones, and
- Earmarking a percentage of Workforce Training funds for training or other eligible programs.

Since that meeting, the state has announced a new Customized Training Program (CTP) for businesses expanding in or relocating to the State of Washington. While this program is not linked to the proposed innovation zones program, it represents another welcome form of state assistance for potential zone companies.

Of the above options, providing additional CERB funding seems to be the best alternative. Local communities already understand the CERB program. Funding guidelines and administrative mechanisms are already in place, although they could certainly be simplified. One problem is that CERB, as presently constituted, is almost always a loan program. If some process could be developed to make grants for development projects within a zone, the economic growth generated by these grants could be reinvested in the zone, rather than paid back to CERB.

A second issue is that CERB is essentially the only development program that provides assistance to the state's smaller communities. Because CERB is already underfunded, it would not be fair or politically practical to further spread the existing funds to include innovation zones.

Therefore, the state should consider increasing CERB funding by the amount it believes is necessary to support the Innovation Zone program without reducing CERB funding for other communities. This could be ac-

complished by 1) using a set-aside for the Innovation Zone program and earmarking a certain percentage of the funds for Innovation Zones; 2) reverting unused funds to the regular CERB program, or 3) by using a system of point preferences for Innovation Zone projects.

The use of the Life Sciences Discovery Fund for innovation zone development should be encouraged, although these are one-of-a-kind project-related investments and should continue to be made available on a competitive basis. However, a set-aside could be developed for projects occuring inside innovation zones.

Expansion of the .08 optional sales & use tax is another possibility by expanding the eligible use of the program to include innovation zone development. This certainly should be considered. It is assumed (perhaps erroneously) that under the current criteria .08 monies could be used to fund public infrastructure within a zone. However, if the state were to have even a limited grant program available for zone funding, it might be able to better leverage the local commitment of .08 funds. This is always an issue since these decisions are made at the local level by elected officials who face many competing priorities and may not recognize that innovation zones are their highest priority.

We would like to see the state law regarding the use of TIF/LIFT expanded so that it could be used for infrastructure development in innovation zones. However, this option may take time to make the necessary legislative changes that would be required. However, it might be possible to use this tool to assist with commercially-oriented development that might take place within a zone.

Earmarking Workforce Training Funds to support the state Innovation Zone program would be particularly important. This funding should be for a 3 to 5 year period so that the local workforce training providers could offer both short-term and long-term training. In the past, the challenge to providing longer-term training has been that most of the training dollars received has been tied to a one-year funding cycle.

The recently announced B&O tax credit for customized training is also important, even though it will be available to eligible companies statewide. Providing a loan to cover the up-front costs of customized training is a useful first step in making Washington more competitive with other states in this important area.

While each local training provider will need to reach its own conclusions, we believe that the greatest need for new training dollars in an innovation zone context would be for training incumbent workers. If there were more

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incumbent worker training dollars, we believe that they would not only do a better job of supporting local business and economic development efforts, but would also provide opportunities for entry level positions that would open up as incumbent workers are promoted.

In addition to infrastructure and training assistance, the state and local government should consider other forms of assistance targeted so that it assists the zone in fulfilling its role as an important economic development asset in the community, such as:

- Providing funding to ADOs for zone administrative entity for marketing and business recruitment;

- Providing funding to assist the zone entity or the local community to provide various small business assistance programs, such as the "entrepreneurial collaboration," peer mentoring collaborative, or the development of a small business Web Portal capacity as discussed in the Sense of Community section;

- Encourage local governments to provide no-fee plan reviews, reduction or elimination of utility connection fees, and guaranteed fast track permitting within innovation zones;

- Encourage land owners and developers to provide "plug-and-play" infrastructure and fully permitted sites for "approved" activities;

- Offer Small Business Innovation Research/Small Business Technology Transfer Program (SBIR/STTR) assistance to zone companies for developing proposals and administrative assistance, and;

- Provide improved access to WSU/DOE library in the Combined Information Center (CIC) on campus.

Based on the results of our local survey, interviews and focus groups, members of the Tri-Cities business community also supported investments targeted to zone companies. These included:

- Allowing accelerated depreciation rates on real and personal property.

- Allowing local communities to cap the assessed property tax valuation for capital investment within Innovation Zones at some figure to be determined by the state (*$50 million?*).

● Modifying the state lending of credit prohibition to allow local units of government to provide free or deeply discounted land to new companies locating in an innovation zone.

● Reduction of rate of the B&O tax for startup companies in an innovation zone for a specified period of time (perhaps 5 years) while they are getting started.

● Provide a B&O tax credit on business conducted in an innovation zone or on a manufacturer's sales outside of an innovation zone.

● A decrease in the entry-level threshold in order to qualify for the B&O tax credit for high technology companies located in an innovation zone,

● An increase in the B&O tax credit for job training services to companies located within an innovation zone.

● Extend the B&O tax credits for new job creation to all companies located in an innovation zone.

● Provide a B&O tax credit to cover a portion of relocation assistance expenses for hard-to-recruit technology workers in an innovation zone,

● Allow investment tax credits for Washington state-based angel and venture capital investors who invest in companies located in an innovation zone.

● Provide state matching funds for SBIR/STTR grants for companies located in an innovation zone.

When considering these various forms of state investments, the Department of Revenue needs to be reminded to look at such measures not as "incentives" that cost the state money, but as targeted investments in the future growth of the state's economy, considering not just what revenues might be lost in the short term, but what revenues will be gained in the long term.

If the proposed Innovation Zone program is ultimately created by the state, it is quite likely that each potential zone will be in a different state of readiness in terms of the above-mentioned characteristics. Those areas that are selected should exhibit the most important characteristics—**a sense of place, world class companies, world class workers, proximity to research or educational institutions, and room to grow.** A sense of community can be developed; strategic plans can be developed; and state investments (with much difficulty) can be created and funded.

Recommendation #14
The state should consider a range of B&O tax credits and other investments targeted to zone companies, and attempt as much as possible to limit the tax burden on startup and emerging companies.

The Tri-Cities Innovation Zone

Because of our past efforts, we believe that the Tri-Cities is uniquely qualified to serve as the "poster child" for the state's Innovation Zone program.

A Sense of Place. Arguably, the Tri-Cities area is already an innovation zone. Whether it's the state-of-the-art engineering tied to the construction of the largest waste vitrification plant in the world, scientific research being carried out by the U.S. Department of Energy or by federal contractors cleaning up the Hanford Site, Lamb-Weston's Research and Development Center in Richland, Washington State University's Agricultural Research Center in Prosser, or the BSEL building now under construction at the WSU Tri-Cities campus, the high tech medical equipment and instrument companies near Vista Field in Kennewick, creative Pasco-based companies like the Image Works Media Group, or the accomplishments of the 4,200 scientists, engineers and researchers at PNNL, the Tri-Cities is one of the most important centers of innovation in the state.

This characterization of the Tri-Cities as an innovation zone appears to be confirmed by a recent study, Best Performing Cities 2005, published by the Milken Institute in February, 2006. The report measures an area's overall job growth, wage and salary growth, job creation and economic performance as measured by high-tech location quotients – the concentration of the technology industry in metro areas relative to the average across the nation.

Among smaller metro areas with less than 230,000 population, the Tri-Cities ranked 7th in the nation, up from 29th in 2004. The only small metro area in the Pacific Northwest to rank higher than the Tri-Cities was Bend, OR which ranked 2nd. In Washington, Bellingham ranked 12th, and Olympia ranked 23rd. Among larger metro areas, Bremerton-Silverdale ranked 18th, Tacoma 37th, Spokane 93rd, and Portland-Vancouver ranked 95th and Seattle-Everett-Bellevue ranked 127th.

Comparing the High Tech GDP Location Quotient (LQ), the Tri-Cities had an LQ of 1.67, compared to Bend at 0.69, Bellingham at 0.60 and Olympia at 0.40. Among the larger metros, Bremerton-Silverdale had an LQ of 0.91, Tacoma 0.47, Spokane 0.62, Portland-Vancouver 1.52, and Seattle-Everett-Bellevue had an LQ of 2.22.

This also is confirmed by recent Washington Employment Security Department data. According to a report published by the department in early 2006, the Location Quotient for Professional and Technical Services (P-T-S)

2005 BEST PERFORMING CITIES

Metro Area	Overall Rank	2004 LQ
Tri-Cities	2*	1.67
Bellingham	12	0.60
Bremerton-Silverdale	18**	0.91
Olympia	23	0.40
Tacoma	37	0.47
Spokane	93	0.62
Portland-Vancouver	95	1.52
Seattle-Everett-Bellevue	123	2.22

Source: Milken Institute
*Small Metro Areas *(Pop. less than 230,000)*
**Large Metro Areas

workers in Benton County is 2.73 with an annual salary averaging $61,415. The Tri-Cities consistently ranks number one or two in the State of Washington in Small Business Innovation Research (SBIR) awards per capita, patents per capita, and federal R&D expenditures per capita.

The Tri-Cities economy grew at unprecedented rates during the first five years of this decade, achieving growth rates of 4 to 5 percent from 2002 to 2005. Its metropolitan population grew by 41,000 in the five years between 2000 and 2005 to approximately 230,000. State projections indicate that the area's non-farm employment will grow by almost 2 percent between 2002 and 2007 to 89,200, and by a further 1.5 percent between 2007 and 2012 to 96,100. However, the increase in the number of P-T-S workers is expected to grow by 3.6 percent and 2.8 percent over the same periods. The area's unemployment rate stood at 6 percent in July of 2006, with Benton County at 5.7 percent and Franklin County at 6.8 percent.

The area's growth rate has slowed gradually since 2005, due largely to more than 2,000 layoffs which have occurred as a result of various delays in the cleanup activities at Hanford. In prior years, the loss of that many Hanford jobs would have created a recession in the Tri-Cities economy. The fact that it has not, and that non-farm employment has actually continued to grow, indicates that the economy has started to diversify and is more than compensating for the losses of jobs at Hanford.

But even in the light of its recent growth, the Tri-Cities still faces an increasingly timely and unrelenting question: What can be done to further diversify the Tri-Cities economy in order for it to continue to grow and prosper in a life after Hanford?

Many of the building blocks of that economic diversification already exist. Many of the major employers would not be located in the Tri-Cities today if it were not for Hanford. Some of these major employers will leave when the cleanup mission at Hanford is completed. Others, like PNNL, have expanded their missions and activities well beyond their original ties to Hanford and will lead the area's economic diversification in the future, along with tourism, trade and agri-business.

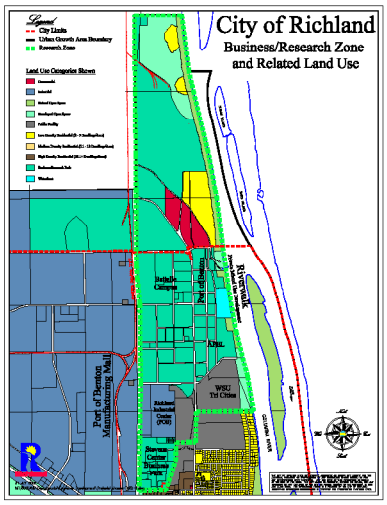
However, economic diversification will require that new companies be attracted to the Tri-Cities—companies that can build on our competitive advantages in research and development, technology infrastructure, educational and research institutions, and tourism and agriculture—and who, in turn, will create more high wage new jobs replacing those that will be ultimately lost at Hanford.

2002-2012 NON-FARM WAGE AND SALARY PROJECTIONS TRI-CITIES MSA

NAICS Industry Title	Growth Rates 02-07	07-12
Total Non-farm	1.9%	1.5%
Const. Nat. Res., Min.	0.8%	1.2%
Manufacturing	0.3%	0.7%
Trade, Trans., Utilities	1.4%	1.2%
Information	0.0%	1.9%
FIRE	2.6%	1.2%
Services	2.4%	1.7%
P-S-T*	3.6%	2.8%
Government	1.8%	1.5%

Source: Employment Department

** Professional, Scientific & Technical Services*



In 2004, the City of Richland established a 1,970 acre Business-Research Zone (shown in green) in North Richland. The area includes PNNL, WSU-TC, Stevens Center Business Park, and the Port of Benton. (See full-sized map at Appendix 2)

The Tri-Cities community has already made great progress in planning its future economic diversification; building community partnerships, developing strategic plans, building new community infrastructure and developing new economic development tools. But much work remains to be done. The state's proposed Innovation Zone program could be a great help in this effort.

The center of innovation in the Tri-Cities is the Research District area in north Richland that, as described earlier, was defined in the 2006 AngelouEconomics study. If there is to be a location-based, state-recognized and funded Innovation Zone in the Tri-Cities, it should be consistent with the boundaries of the Research District proposed in the AngelouEconomics study. The entire area is contained within two federal Census Tracts (101 and 102.02) and within the 99354 Postal ZIP Code.

Much of this area is within the Business/Research land use zone created by the City of Richland in 2004. The zone also includes the PNNL campus and Battelle property, the Port of Benton property east of George Washington Way, Stevens Center, privately-owned developed and vacant property, and much of the area north of the Richland city limits on the Hanford Reservation.

A Sense of Community. Historically, the Research District area has been dedicated only to work. A few small restaurants and espresso stands have served workers who didn't wish to eat on-site or drive to other parts of the Tri-Cities for food, shopping or services. Predominantly single-family residential neighborhoods extend south from the area, particularly along the Columbia River. In 2004, a successful condominium development was competed just north of Stevens Center, and another 51-unit condo project, with units selling for $300,000 to $600,000, is currently under construction along the Columbia River several blocks east of PNNL. These developers are also proposing approximately 200,000 square feet of office and retail development as a future component of the project. Other commercial development opportunities exist along the western boundary of the area adjacent to the Stevens Center Business Park and on the property suggested for Phase II of the research park on land owned by a private developer, although this property would have to be rezoned.

The heart of the Research District community is, of course, the Pacific Northwest National Laboratory, with its 4,200 employees and planned "Campus of the Future" expansion, WSU-TC with its new four-year status, a growing student population and its new $24 million BSEL building now under construction, and the growing Stevens Center Business Park. Other important members of the community include the Port of Benton, which owns strategically-positioned real estate in the area and the Applied

Processing Engineering Laboratory (APEL), a highly respected technology incubator, owned by Energy Northwest and soon to be managed by the Washington Technology Center. The proposed Tri-Cities Research Park would attract new and expanding technology-oriented research, testing and manufacturing companies to locate in the area.

One of our earlier recommendations suggested that the state should consider providing financial assistance to innovation zones to assist them with marketing and recruiting as well as small business and community outreach assistance. One of the surveys we received suggested that instead of providing funds for marketing and recruiting businesses to the zone, funding should be used to attract the very best talent to the zone. It's an interesting concept. This approach also might address another difficult problem for the Tri-Cities – attracting investment capital. There is a body of evidence that suggests that if you recruit the best talent, they, as a result of their successes, will recruit the necessary investment capital.

The Tri-City Research District looking north toward PNNL's main campus. Phase I of the proposed Tri-City Research Park is shown to the left of the picture.

This concept is being adopted by WSU-TC in a 2007 request to the legislature. Funding is being sought to recruit and hire for five faculty positions designed to establish the Bioproducts, Sciences and Engineering Laboratory (BSEL) as a world class facility.

The two comprehensive high schools in the Richland School District already offer high level math, science, and technology courses as well as organizations and activities that support these courses. Both consistently outperform the state and national averages in their SAT scores that are commonly required for admission to colleges and universities. Hanford High School is located in north Richland immediately adjacent to WSU-TC. Both of Richland's high schools are in the midst of an $80 million remodeling program providing lab facilities that include modern safety equipment, new technology, and equipment and furniture more like that found in the actual workplace. Similar programs are available at the other area high schools.

The District currently places students in paid Work Based Learning opportunities with companies throughout the Tri-Cities including PNNL and Energy Northwest. The District also has students completing unpaid internships with community organizations and their teachers and staff members constantly look for additional opportunities for students to participate in these activities while in high school and continuing on, if possible, during their college careers.

Columbia Basin College has made a major commitment to science education by establishing the Washington Institute for Science Education (WISE). WISE provides for math and science computer lab; a math and science tutot center; a faculty science resource center; new classrooms and lecture

halls; new science laboratories; diversity and academic commons area; and nursing and health sciences programs.

There also is great potential for student development and intern programs at Columbia Basin College. If the Tri-Cities were to have a state Innovation Zone, it would make sense to create one or more "centers" at CBC for addressing problems such as the retirement of technical knowledge within the Hanford workforce or the development of clean and green energy technologies.

Another example of a Center of Excellence that would make great sense at CBC would be in the area of biotechnology. With the BSEL building coming on line next year at WSU-TC, a state-funded CBC program could help drive down overhead rates by preparing biotech workers who could work under the direction of senior scientists and faculty members. Having a trained workforce from the associate's degree up to a PhD degree would help develop the competencies required for this biotech cluster.

WSU-TC has had an internship program for 10 years. The majority of these interns work for local companies – many of them technology companies – and then go on to work for them full-time. But in the future, as WSU-TC becomes a four-year institution, it is going to be necessary to recruit bright Tri-Cities area students to also go to school there. That will require new relationships to be developed with local school districts. But, in doing that, why not consider programs that identify talented students in math, science and engineering? Wouldn't it be a tremendous advantage to the zone if these separate, but similar, programs could be somehow coordinated and linked to the zone as a more or less seamless process of identifying and directing promising students to future jobs in the zone?

Other workforce-related barriers include difficulty in recruiting and finding qualified senior management and attracting institutional capital. Some progress has been made in attracting capital to the region in recent years; however, more remains to be done. In 2003, Battelle established Battelle Ventures, a $150 million venture capital firm based in New Jersey that pays particular attention to technology commercialization investment opportunities at PNNL and other national laboratories operated by Battelle. In the past year, a network of twelve local angel investors who invest primarily in Tri-Cities-based companies, formed the Columbia Investor Group. More recently, the Spokane Intercollegiate Research and Technology Institute (SIRTI) announced a new federally-funded $3 million loan fund for technology-based businesses in eastern Washington, including the Tri-Cities. Respondents to our local Innovation Zone survey suggested that the search for capital should be broadened to include private equity firms and Fortune 1000 companies.

RICHLAND

Celebrating 50 COLUMBIA BASIN COLLEGE 1955-2005

WASHINGTON STATE UNIVERSITY TRI-CITIES

Innovation zones would benefit from outreach programs that tie local school districts, community colleges, universities and research institutions together in networks that identify and train gifted local students for careers in high technology companies.

PNNL's Economic Development Office also sponsors a free Technology Assistance Program that provides local technology companies up to five days of free technical help from knowledgeable engineers and scientists who work at PNNL but it might be possible to expand these relationships to build even closer ties between the laboratory and local high tech companies.

Concentrations of World Class Companies. PNNL's Economic Development Office lists more than 300 technology companies as currently residing in the Tri-Cities. Based on U. S. Department of Labor guidelines, PNNL defines technology companies as belonging to certain industrial sectors, identified by Standard Industrial Classification (SIC) or North American Industry Classification System (NAICS) codes, in which at least seven (7) percent of the workers are engaged in technology occupations, such as engineers, scientists, computer programmers, technicians and statisticians. This definition excludes otherwise technology-based companies that are strictly in manufacturing or sales, without an R&D component.

PNNL's list of local technology firms fall into three groups of 2-digit SIC codes: SIC Codes 28 (Chemical and Biological Production), SIC Codes 36, 37, 38 and 50 (Equipment Design and Manufacturing), and SIC Codes 48,73,78,80 and 87 (Services).

The largest number of these firms (134), including the area's largest employers, are located in Richland, split about evenly between the north Richland 99354 and south Richland 99352 ZIP Codes. The City of Kennewick accounts for the next largest number of companies (105) with all but four firms located in ZIP Code 99336. Thirty-six companies are listed in Pasco, all in ZIP Code 99301. A small number of additional firms are located in Burbank, Prosser, Benton City and West Richland.

Of the first group of these firms (Chemical and Biological Production), four of the firms are in Chemicals, Industrial Inorganic (SIC Code 281) with two firms each located in Richland and Kennewick. One company, located in Kennewick, is in Chemicals, Miscellaneous & Chemical Preparations, Including Adhesives, and Sealants (289). Six firms are engaged in Chemicals, Organic & Agricultural (286, 287) with 4 of the companies located in Kennewick and two in Pasco. The four businesses in Pharmaceutical Manufacturing (283 are located in Richland (2), Kennewick (1) and West Richland (1). Finally, the two firms in Plastics, Rubber, & Fibers (282) are both located in Richland.

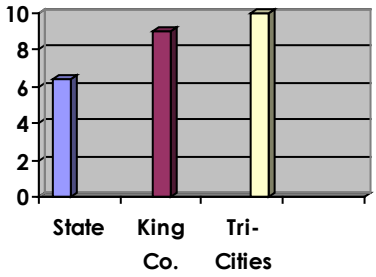
The second group, Equipment Design and Manufacturing (SIC Codes 35, 36,37,38 and 50), contains one Kennewick company engaged in Aircraft &

TRI-CITIES LARGEST PRIVATE SECTOR EMPLOYERS

Pacific Northwest National Laboratory	4,178
Fluor Hanford, Inc.	3,499
Bechtel National Inc.	2,185
Tyson Fresh Meats	1,800
ConAgra Foods, Inc.,	1,685
Kadlec Medical Ctr	1,313
CH2M HILL Hanford Group Inc.	1,136
Energy Northwest	1,072
Broetje Orchards (seasonal)	988
Kennewick Gen Hosp	765
Washington Closure	755
Lockheed Martin Information Technology	650
AREVA NP, Inc.	625
Lourdes Health Network	610
Fluor Government Group	600

Source: TRIDEC

TECHNOLOGY OCCUPATIONS AS PERCENT OF TOTAL EMPLOYMENT



Source: Dept. of Employment Security

Parts (372), three Kennewick firms engaged in Communications Equipment, Including Phone, Broadcasting (366). Two Pasco, one Kennewick and one West Richland companies are in Computers & Office Equipment (357), the Construction equipment & Industrial Machinery (353, 355) category is dominated by Lampson International LLC, located in Kennewick. Three other firms in this category are located in Prosser, West Richland and Kennewick.

The one firm engaged in Electronic Components & Accessories, Electrical Supplies (367, 369) is located in Richland and Kennewick respectively. Energy Northwest, located in north Richland, is the lone company engaged Engines & Turbines (351).

The Tri-Cities has 13 companies engaged in Measuring & Controlling Devices (382) with seven of them being located in Richland, four in Kennewick and one in Pasco. Seven firms are engaged in Medical Equipment, Instruments, & Supplies (384) with three of the firms, led by Caldwell Industries and TISport being located in Kennewick and the other four firms, including SIGN and Advanced Imaging Technologies, are located in Richland.

Rounding out the rest of the Equipment Design and Manufacturing sector, one Pasco company is engaged in Motor Vehicles & Equipment (371), one Kennewick company is engaged in Motorcycles, bicycles, & parts (375), one Pasco company is in Ophthalmic Goods (385), one Kennewick company is engaged in Search & Navigation Equipment (381), and two Richland companies are engaged in Tools, Industrial (354) including Sandvik Special Metals.

The final group of companies, Services (SIC Code 87) contains a diverse, but important, group of Tri-Cities companies. Cable & Other Pay TV Services (484) contains one Pasco firm. Communication Services, Miscellaneous (489) contains one Richland and two Kennewick firms. Sixty-seven

firms, mostly small software development, data processing services and computer repair firms comprise the Computer & Data Processing Services category, including Software Development, Multimedia Production, Systems Design, Networking, Leasing, and Repair; also Internet Service Providers (737) with 36 of these firms located in Kennewick, 20 in Richland and nine located in Pasco. Notable in this group, however, are Image Works Media Group, Vivid Learning Systems, and Lockheed Martin Information Services.

Another large grouping of firms, Engineering & Architectural Services (871),

include some of the Tri-Cities' largest employers and Hanford contractors. There are 103 companies in this category and all but 36 are located in Richland, including major Hanford contractors like Bechtel National, CH2M HILL Hanford Group, Fluor Hanford, Washington Closure Hanford and Washington Group International. Of the eight companies in the Medical & Dental Labs (807) category, all but two are located in Kennewick. The eight firms in Motion Picture Production (781) are spread around the Tri-Cities with Richland having the largest number at four. All but three of the Phone Communications Services (481) companies are located in Kennewick. Almost all of the 14 Research & Testing Services (873) firms are located in Richland, including PNNL and Energy Northwest. Finally, there are two Telegraph & Other Message Communications (482) firms with one each being located in Kennewick and Pasco.

PNNL's list of technology companies still uses Standard Industrial Classification (SIC) Codes instead of the more recent North American Industry Classification System (NAICS), although this is about to change. In order to compare relative SIC and NAICS codes, view the Census Bureau's site at http://www.census.gov/epcd/ www/naicstab.htm.

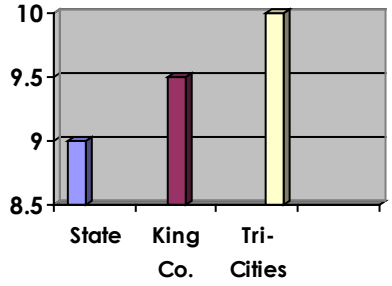
Concentrations of World Class Workers. The Tri-Cities is currently home to 1,600 PhDs and 7,000 engineers and scientists and has the second highest percentage of technology jobs per 1,000 in the state. The average annual wage for a Professional, Scientific and Technology Services (P-T-S) worker in Benton County is $61,415.

World class technology companies need world class workers, and, with some exceptions, they are generally available in the Tri-Cities. In 2000, 94 percent of Benton County's population 25 years of age or older had a high school diploma or better. Almost 40 percent had at least four years of college and, of those, almost 10 percent held advanced degrees. Benton County has roughly twice as many PhDs as the state average at 1.5 percent of all adults 25 or older.

The Tri-Cities is home to a far higher percentage of P-T-S workers than anywhere else in the state. In 2004, P-T-S workers accounted for 12.45 percent of all non-farm employment in the MSA. The percentage of P-T-S workers in King County (home of Microsoft) was 6.66 percent and the statewide average was 4.81 percent.

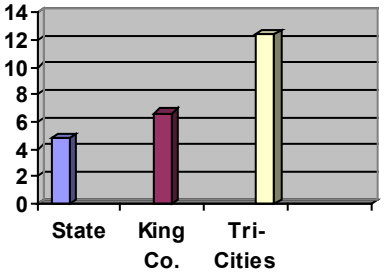
Patent activity by local companies and their employees is also a good measure of how active an area is in the innovative process. These ideas are the basis of future products and processes. Without new ideas, existing companies will not remain competitive and new companies will not be created.

PERCENTAGE OF MASTERS OR HIGHER DEGREES (Adults 25 Years of Age & Over)



Source: 2000 Census

PERCENTAGE OF P-T-S WORKERS COMPARED TO TOTAL EMPLOYMENT



Source: Dept. of Employment Security

Executives of Tri-Cities technology companies discuss business incentives, worker availability and the need for venture capital at a special TRIDEC focus group held on August 18, 2006

Between 2000 and 2003, TriCities companies received 210 new patents, the largest numbers of which were in physics, chemical engineering, materials, energy and measurement devices.

We mentioned earlier that not all tech company employees are engineers, scientists, computer programmers, technicians and statisticians. For others, there are education issues and barriers to work, particularly in a community like the Tri-Cities, which has a large Hispanic and Latino population. Barriers to employment include language, education, physical disabilities, drivers license/driving record, criminal background, transportation, and availability of child care. One of the possible community outreach activities mentioned in the Sense of Community sections might be a coordinated approach to working with service providers to mitigate these barriers.

Both TRIDEC and the city of Richland conduct Business Retention and Expansion surveys. TRIDEC focuses its survey on manufacturers, but the Richland surveys businesses of all sizes and types. The City's 2005 survey was mailed to 547 Richland and had a response rate of 25 percent. While the survey was limited to Richland businesses, it is relevant to this study because if a program is established, one zone likely would be in north Richland. Also, employers recognize that it is not uncommon for employees to work and live in different cities.

One of the sections of the survey dealt with workforce quality and availability. Respondents were asked to rank the availability of workers on a scale of 1 to 5, with 5 being the best. Sixty percent of the respondents ranked worker availability as either a 4 or a 5. This result was up significantly from the City's 2002 and 2001 surveys. Respondent's felt that the quality of the local workforce also was high, with 57 percent of them rating it either 4 or 5. This also was up from previous years, but not by quite as much. Fifty-five percent of those surveyed rated the stability of the workforce as either a 4 or 5. There were also a number of comments about the negative impact that the high salaries paid at Hanford had on the ability

of smaller companies to compete, including their view that the work ethic that they found in former Hanford workers was inadequate.

Respondents noted that the number of positions they had open but could not fill was decreasing, a trend that has been going on since 2000. However, some types of workers were difficult to find, including engineers, auto-cad technicians, and nurses. On the whole, they felt that WorkSource Columbia Basin, CBC, and Tri-Tech (the local alternative high school) were doing a good job of training potential workers.

TRIDEC's 2006 CARE Business Retention Survey was conducted in face-

to-face interviews with company executives. Forty-five percent of the 91 companies interviewed reported difficulties in recruiting specific job categories. This was confirmed by recent interviews with WorkSource Columbia Basin job developers. There is a strong correlation in the types of hard-to-find job categories in the City, TRIDEC and Employment Security Department data. These included business development specialists, experienced managers, manufacturing engineers, supply chain managers, mechanical, electrical and civil engineers, software developers, auto CAD technicians executive administrative assistants, fabricators, machinists, electronic technicians, machine designers, hardware/software designers for wireless transmission devices, pathologists, toxicologists, nurses, chefs and industrial hygienists as being difficult positions to fill in the Tri-Cities area.

Respondents to the various surveys are generally quite complementary about the quality of life in the Tri-Cities – not surprising for business owners who, with their families, live in the area and whose children attend the generally excellent K-12 local public schools. The situation, however, can be much different for younger professional workers who have either grown up in the Tri-Cities or were attracted here from more urban areas. These workers often feel isolated; complain about the lack of nightlife and of places to meet people with similar interests, or about restaurant and shopping options.

To some degree, these are issues of time and growth. As anyone who as spent the last five years in the Tri-Cities can attest, there have been a great deal of improvement in the local "scene" but it still lags far behind the options available in larger cities. TRIDEC has been trying to address this issue by investigating the creation of a "young professionals" group. The fact that TRIDEC is involving itself in this issue makes it somewhat unique among EDC organizations in Washington.

Proximity to Research and Educational Institutions. Additional development activity is beginning to accelerate in the Research District, bringing new facilities and new workers to the area.

The cleanup of the Hanford 300 Area will require the redeployment of approximately 900 Department of Energy and PNNL employees to PNNL's main campus, occupying some existing buildings. Many will move into a new federally-funded building to be built immediately to the north of the existing PNNL campus. This building will accommodate federal missions that need to be conducted on federal land. The building is one of five new buildings, totaling 2 million square feet that will be added to PNNL's existing campus over the next two years. This "Campus of the Future" expansion is likely to add another 1,000 employees to the 4,200 already work-

DIFFICULT TO RECRUIT TRI-CITY JOB CLASSIFICATIONS

Civil Engineers
Manufacturing Engineers
Electrical Engineers
Mechanical Engineers
Auto Cad Technicians
Electronic Technicians
Executive Admin Assistants
Chefs
Nurses
Industrial Hygienists
Computer Programmers
Architects
Draftsmen
Fabricators
Machinists
Supply Chain Managers

Source: 2002, 2005 City of Richland Business Retention and Expansion Surveys, 2006 TRIDEC CARE Survey, Technology Company Focus Group

PNNL's five building, 2 million square foot "Campus of the Future" expansion is shown in this rendering. New buildings are in yellow, including the new WSU-TC Bio-Sciences Building (lower left),

Portrayal of the new WSU-TC Bio-products Sciences and Engineering Laboratory, now under construction.

ing at PNNL. The campus redevelopment will also substantially change parking and pedestrian traffic patterns on the campus by developing a new pedestrian corridor through the campus that can be extended south into Phase I of the proposed Research Park.

There are also significant changes occurring at the WSU Tri-Cities campus that will change the dynamics of the area. Earlier this year, Governor Gregoire signed into law a measure permitting WSU-TC to become a four-year institution, following an extraordinary community effort. This, in turn, was followed an agreement announced late in 2005 that will allow a seamless transition by CBC students to WSU-TC, through a Coordinated Bachelors Program. Over time, both measures will increase the number of students attending the campus, ultimately creating more demand for nearby retail and service establishments. As discussed previously, the new $24 million BSEL building is under construction on the campus. Last month, WSU announced it had selected a new Chancellor for the Tri-Cities campus. Dr. Vicky Carwein held the same position for the first ten years of the University of Washington's Tacoma campus, overseeing its expansion from a branch campus to a full four-year university.

Room to Grow. The key recommendation of the AngelouEconomics study was that the major community stakeholders create a Research District in north Richland, and to develop a new Tri-Cities Research Park to attract new research and technology companies to the district. The concept of the research park would be similar to other well-known private and university-owned research parks around the nation in that it would provide land and other services, which with its close proximity to PNNL and WSU-TC, would attract new and expanding technology-oriented research, testing and manufacturing companies to locate at the park. This would ultimately create an environment that would stimulate social and professional interaction in a high quality of life environment.

An alternative to the public-private development option may be that the property owners, some of whom at least have a profit motive, may decide to cooperate in terms of overall planning, but market their properties independently. The Port of Benton is restricted to negotiating leasehold arrangements on most of the north Richland land they obtained from the federal government but they are able to sell land they own along the Columbia River.

Phase I of the Research Park would be located on 50 acres of land currently owned by Battelle Memorial Institute immediately south of the PNNL campus. Phase II of the park would be located on 80 acres just to the south of the Battelle property on land owned by a private developer. A future Phase III of the park, if needed, could be located on port-owned land at the Rich-

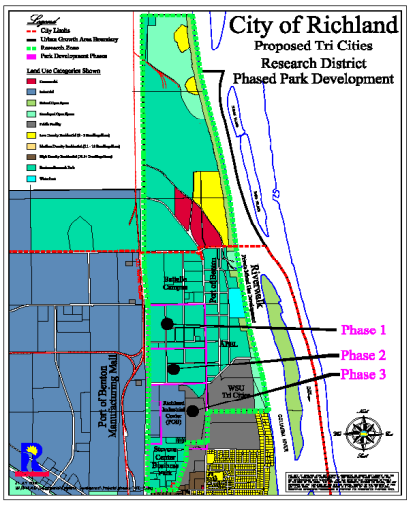
land Industrial Center (RIC). The management structure of the proposed park property is currently being determined by the landowners.

A Vision AND a Plan. Because of its unique history, the Tri-Cities, and in particular the City of Richland, sees itself as a technology-based community. Even though agriculture has always been an important economic mainstay – particularly in Franklin County – and retail trade and services have been, since the 1960's, a growing and regionally important part of Kennewick's economy, it has been Hanford, with its 12,000 to 14,000 employees and huge annual federal expenditures that have formed the economic bed rock of the Tri-Cities since the 1940's..

Since the mid-1980's the Tri-Cities community has increasingly known, but not quite believed, that Hanford would somedayve go away. The list of reports and reference materials in the City of Richland's annual Action Plan and Strategic Planning Framework includes 1½ single-spaced pages of reports and studies that have been produced just since 1994. A city survey conducted -- in 1964 -- cited industrial diversification as the community's most important goal. Each of the other Tri-Cities communities have their own stockpile of past studies.

New planning efforts have continued to refine the community's vision and have created a cohesive strategy within the Tri-Cities community. Within the past two years, these communities have invested at least $375,000 to update their economic development plans and strategies. Because these documents were completed so recently, and because several of them were prepared by the same consultants, they provide an unusually current and integrated vision of the future. They include:

- PNNL "Research Campus of the Future" Development Plan (2005),
- City of Richland Strategic Economic Development Plan (2005),
- City of Kennewick Economic Development Plan (2006),
- TRIDEC Marketing Strategy (2006),
- Tri-Cities Research District Plan (2006),
- Tri-Cities Enterprise Association Entrepreneurial Support Study (2006),
- Building Bridges for Life Long Learning (2006),
- WSU-TC Four Year Higher Education Plan (2006), and the



The recommended Research District (outlined in lime green) and the three proposed phases of the Tri-City Research Park (See full-sized map at Appendix 3)

AngelouEconomics developed a Tri-Cities Research District Plan for the Port of Benton and their local economic development partners in 2005. Many of their recommendations are included in this study.

To our state readers, thank you!

- City of West Richland Strategic Economic Development Plan *(planned)*.

Six of the nine studies are related, either directly or indirectly, with the proposed Tri-Cities Innovation Zone.

Targeted Investments. Various forms of potential innovation zone incentives were extensively discussed in the first section of this report and do not need to be repeated here. Our surveys, interviews and focus groups generally agree that state-funded, zone-related incentives should be made available for the following purposes if the zone program is to achieve its desired goals for economic growth and diversification. These targeted investments should include:

- The development of the zone's physical infrastructure of the zone,

- Assistance to units of government who have innovation zones in their jurisdictions by expanding .08 or TIF/LIFT legislation to allow innovation zones as an eligible purpose

- Outreach activities that support not only companies located within the zone, but also those located throughout the broader community;

- Tax credits, job training and other targeted investments to help make companies located within the zone more successful and profitable, particularly during startup, and;

- Similar types of assistance should be provided for technology companies located outside of the zone but who have supplier, technical assistance or other relationships with the zone (limit to companies located within a reasonable distance of the zone (30 minutes).

Conclusion

In conclusion, TRIDEC and its local economic development partners want to thank CTED and the Governor's Office for including local ADO, WDC, educational and other community organizations in the planning for the proposed state Innovation Zone program. We hope that you will find our recommendations and other thoughts contained in this report useful.

Appendix 1:
Tri-Cities Innovation Planning Grant Team

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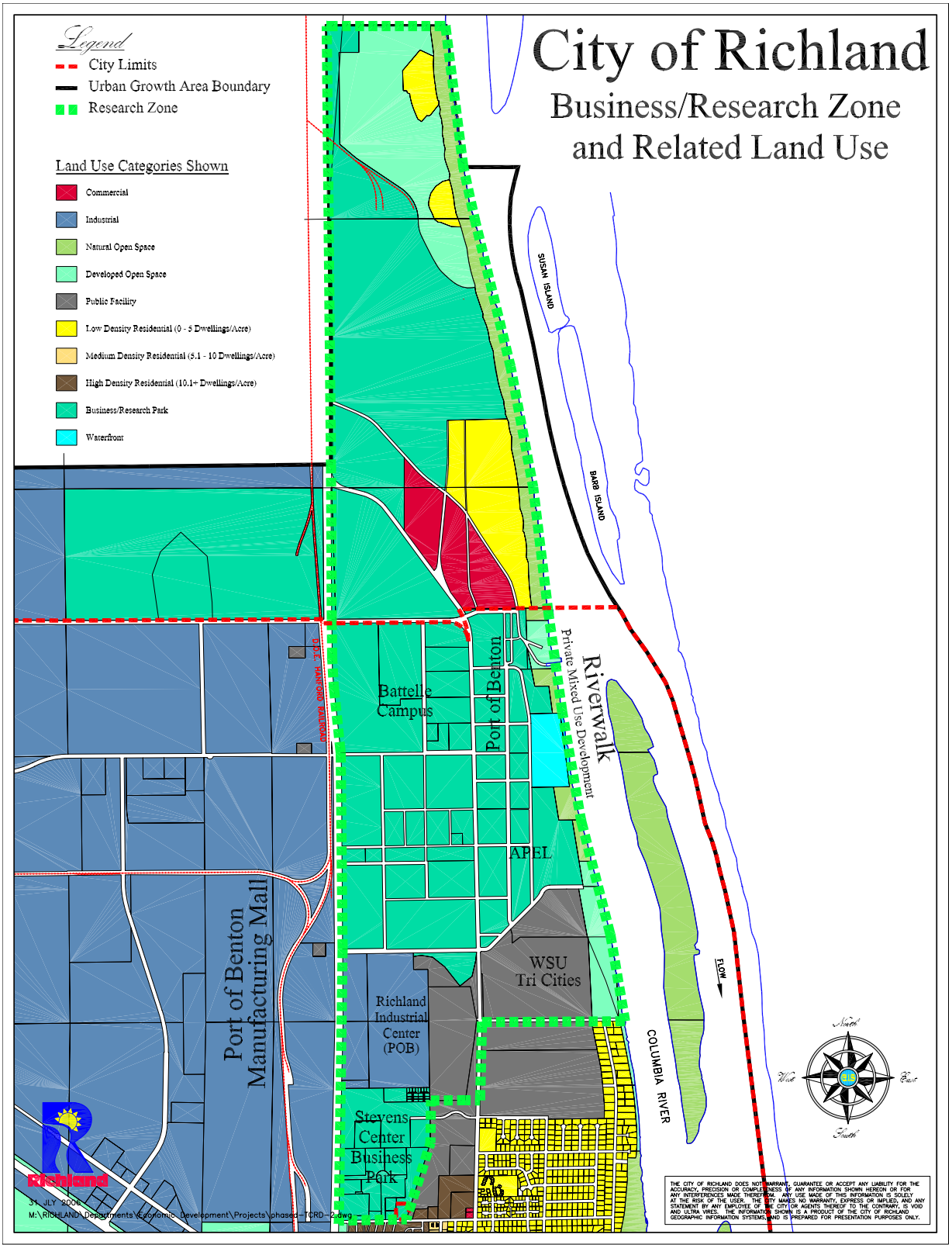
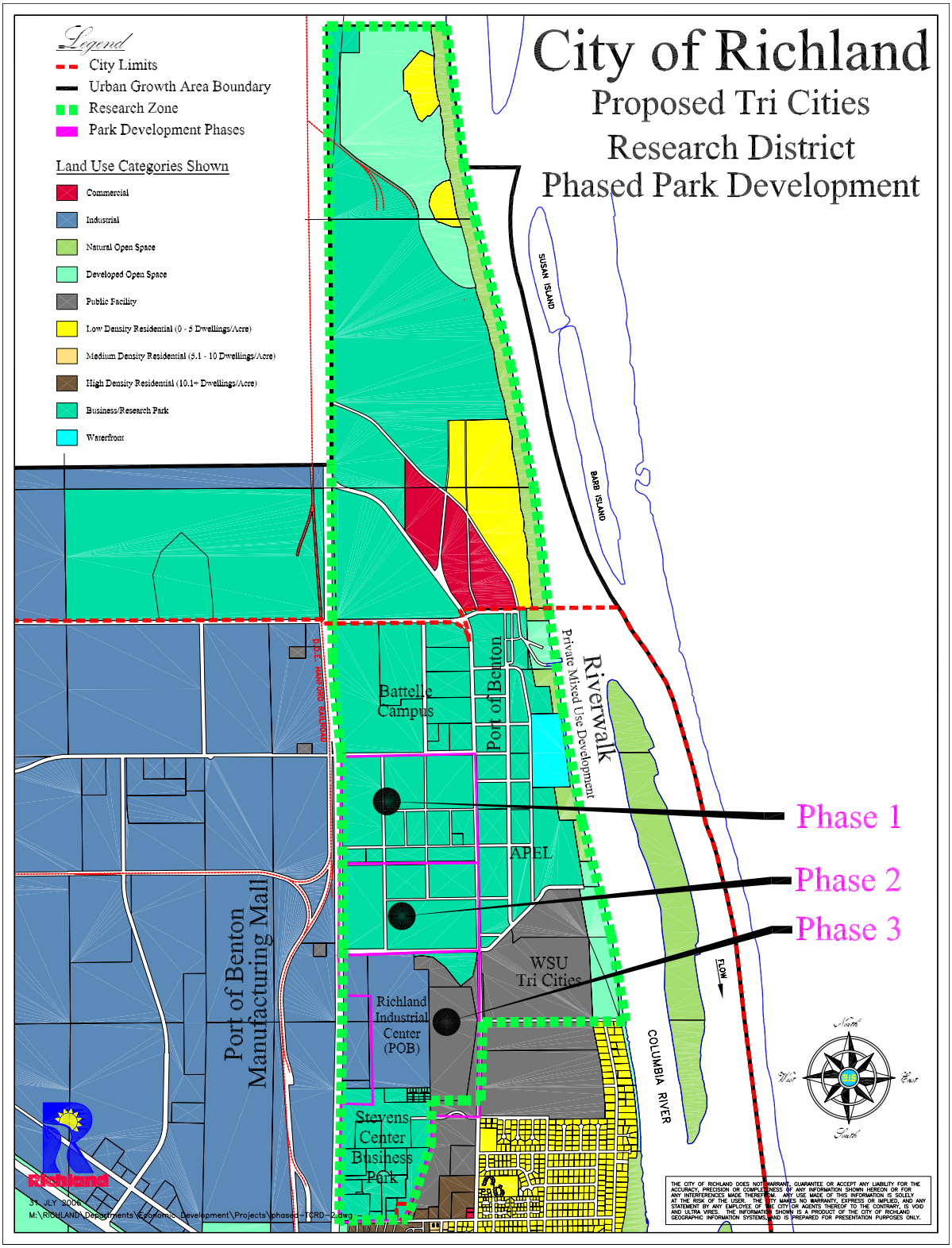
Appendix 2:
Business Research District with Related Land Uses



Appendix 3:
Research District with Proposed Tri-City Research Park Development Phases



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